



# Committee On Finance

Max Baucus, Ranking Member

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**“Equipped to Win: American Trade Policy in a Globalized Economy”  
Remarks of Senator Max Baucus  
Before the Washington International Trade Association**

On May 4, 1962, in New Orleans, President Kennedy spoke to cheering crowds about trade.

The world around him was changing. New competitive threats had emerged. Japan was resurgent. Six nations had recently formed an alliance called the European Economic Community.

Washington debated: Should America respond with tariffs? Or should America embrace the new competitive world order?

President Kennedy’s answer was simple. He said: “The whole pattern of trade is changing, and we must change with it.”

For President Kennedy, America faced a choice of destinations. He said: “It can either shrink from the future and retire into its shell, or [it] can move ahead — asserting its will and faith in an uncharted sea.”

President Kennedy chose to move ahead. To meet the competitive pressures of his day, he pushed Congress to pass the Trade Expansion Act 1962. That landmark bill established the Office of the U.S. Trade Representative. It allowed the United States to negotiate tariff reductions. And it created, for the first time, a Trade Adjustment Assistance program to help workers and firms regain their competitive strength.

More than 4 decades later, we once again face a choice of destinations. China and India are reawakening. Trade deficits have become massive. The savings rate has gone negative. Wages are stagnating. And workers are anxious. These currents mix together to form dangerous waters. If we do not navigate them, they threaten to push America’s economic progress off course.

But we lack the necessary political leadership to navigate these waters. Without a coherent focus, U.S. trade policy has been buffeted from one trade deal to the next, hoping to eke out enough votes to pass this or that agreement.

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It's time to restore coherence to trade policy. It's time to give it a unifying purpose. It's time for a purpose that Americans can understand and around which they can rally.

That core mission must be about maintaining America's strength in a changing world economy. That must be the guiding star by which we steer trade policy today. Our trade initiatives, first and foremost, must be about bolstering America's innovative economy in an increasingly globalized marketplace. That way, we can be sure that trade helps America's farmers and ranchers, workers and innovators can compete and win.

America's competitive strength demands attention to trade initiatives that matter. We must end our current practice of negotiating free trade agreements with small economies. Such agreements may have foreign policy benefits. But they add little value to America's long term competitiveness. Other trade initiatives have greater potential.

Let's begin at the World Trade Organization. Plainly, getting to yes with 149 WTO partners in the Doha Round is a long-term priority. Unfortunately, the world's economies do not yet appear ready to make the hard choices necessary to bring the Round to an ambitious conclusion. That's unfortunate. But it's not the end of the trade world.

Recall the Brussels Ministerial in December 1990, the meltdown of the Uruguay Round over agriculture. At that time, commentators called it a "breakdown" of the world trade system. They said that the Round was "dead in the water." They said that it had "very little chance of revival."

Looking back, it's a good thing that the Uruguay Round did not close in 1990. Without the additional 3 years, the Uruguay Round would never have produced its trailblazing agreements on services and intellectual property. Those agreements have been vitally important to America's innovative economy.

Today, the time may not yet be ripe to finish a Doha Round sufficient to advance U.S. interests. But that does not mean that American trade policy must grind to a halt. There is still much that we can do.

With Doha talks stalled, it is time to focus our energy and resources on initiatives that can have real meaning for the U.S. economy. As a first step, we need to spend more time on undertakings with our top trading partners. I strongly support our free trade negotiations with Korea and Malaysia. But apart from those negotiations, we have not made enough progress with large economies. That should change.

For starters, an important competitive priority involves our vast trade ties with the European Union and Japan. They are our 2nd and 4th largest trading partners. We often forget how important transatlantic trade is for our economy. It accounts for a third of global trade. And our \$250 billion trade relationship with Japan helps fuel economic growth.

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A free trade agreement with either trading partner is currently impossible. Our differences over agriculture are too large. But we should lay the foundations for a better relationship by focusing on what we can accomplish now.

Let us start with services. Let us conclude a U.S.-EU-Japan Services Free Trade Agreement. The services sector is critical to U.S. competitive strength. The United States is the world's largest exporter of services. Services account for one-third of total U.S. exports, 80 percent of the U.S. workforce, and more than two-thirds of U.S. GDP.

A trilateral services FTA is the logical next step with two of our most important trading partners. And it is also an essential tool to shore up a highly competitive segment of the U.S. economy.

Like Europe and Japan, China is among our top 5 trading partners. The trade relationship between the United States and China will likely define the 21st century global economy. We have to get this relationship right, and that requires time, effort, and determination.

I am glad to see that Secretary Paulson has taken the reins of the administration's China policy. I think he is off to a good start. I hope that the new U.S.-China Strategic Economic Dialogue brings a real, sustained focus to U.S.-Sino economic ties. This dialogue must not be limited to the administration. With our form of government, it must also include an important congressional dimension.

In part, this new dialogue must focus on the positive. There is much that we can do together with China. We can drive progress in the WTO. We can together promote liberalization in APEC. We can better integrate our giant economies with regional powerhouses like ASEAN and India. We have a great potential economic partner in China that we must continue to actively cultivate.

At the same time, this new dialogue must place a premium on enforcement. America's innovative economy would greatly benefit from enforcement of the market-opening commitments that China made in the WTO. China promised to enforce intellectual property rights. It committed to use non-discriminatory standards. It pledged to permit competition in financial services. And it agreed to use science-based standards in agriculture trade.

Full enforcement of these commitments alone would boost U.S. GDP by \$86.5 billion by 2010. That's far more than virtually every free trade agreement America has concluded.

China has made great strides to open its economy. I commend China's leadership for doing so. But recently, China has begun to send alarming signals. It has favored the adoption of Chinese, rather than international, standards. It has begun resorting to economic nationalism in evaluating foreign investment. And it is not moving forcefully to fulfill all its commitments to enforce intellectual property rights and truly open its financial services market.

These problems, if unaddressed, have the potential to derail our trade relationship with China. We should nip them in the bud. I urge Secretary Paulson and Ambassador Schwab to make this a top priority.

Finally, we need to take a hard look at our FTA strategy. Over the past 5 years, the Government has created a patchwork quilt of individual free trade agreements. Without common rules, these agreements produce needless compliance costs, administrative burdens, and trade distortions. These variations undermine the benefits that free trade agreements are supposed to provide.

Before we negotiate new FTAs, we should stitch current agreements together into a coherent network. In Southeast Asia and the Pacific, we already have high quality agreements with Singapore and Australia. And we are negotiating one with Malaysia. Let's meld these agreements together into one U.S.-ASEAN-Pacific Free Trade Agreement. Then we can open it to include future candidate countries like Vietnam, Indonesia, and New Zealand.

Likewise, U.S.-Korea FTA negotiations could establish the bedrock for a future U.S.-Northeast Asia FTA. That FTA could later include Taiwan, Mongolia, Japan, and maybe, down the road, even China.

It is in America's interest to move forward on these initiatives quickly. We are the largest and most important trading nation in the world. Open and rules-based trade is critical to the future of America and its long term competitiveness.

But moving forward on an aggressive trade agenda is more difficult today than it has been at any time during my 32 years in Congress. The rapid pace of globalization over the past decade has created deep insecurities. The rise of China, India, and other emerging economies in the developing world has fueled those insecurities.

Many in America equate trade and globalization with ballooning deficits, stagnant wages, layoffs, and factory closures. Many see competition from low wage workers creating a global race to the bottom.

Similar insecurities have fueled protests by Korean rice farmers, undermined the approval of the EU Constitution, and reinvigorated populism in Latin America. China and India are major beneficiaries from globalization. But even they risk turning inward as they face the urgent task of dealing with the massive inequalities that globalization has produced.

The reality is that globalization is moving faster than ever. Policymakers struggle to steer a favorable course. A growing chorus believes that we should turn inward to our own shores and restrict the ability of our companies to trade. That chorus ignores the painful lessons of protectionism, which litter world economic history like wrecks upon the shoals. Equally dangerous, others blindly favor open trade, ignoring the real pain that it can cause, all too willing to throw passengers overboard.

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We must avoid either course. Globalization is here to stay. No matter how politically expedient it might be, we cannot bring trade to a stop dead in the water. Nor can we ignore the trade deficits, job losses, and insecurities to which trade and globalization contribute.

Put simply, moving forward on aggressive trade initiatives requires that we tackle — with equal vigor — their domestic consequences. To realize globalization's upsides, we need the political courage and the political leadership to address its downsides.

Four trade-related issues require immediate domestic attention. At the top of the list is reducing our unsustainable trade deficit. The deficit is approaching \$800 billion this year. No single cause raises it this high. Thus no single solution will lower it back down. Rather, our trade deficit requires action on several fronts.

For starters, we urgently need to boost U.S. exports. Since 2000, America's share of world exports has fallen from 14 to 10 percent. Europe's has risen to 17 percent.

I am not surprised. When I was in China and India last January, I heard repeatedly how companies from France, Japan, and Singapore — but not the United States — were taking advantage of local opportunities.

We must reverse this trend. We need to take a hard look at how to improve current U.S. export promotion programs. We must determine what more we can do to help companies, especially small and medium enterprises from Montana and elsewhere, to export successfully.

Better enforcement of our trade agreements will also help U.S. exports. Our trading partners are using regulatory and other means to block our exports. China undervalues its currency. Europe uses food regulations not based on science. Russia fails to enforce intellectual property rights.

We need to spend more time on enforcement. And for that reason, I have proposed creating a Senate-confirmed Chief Enforcement Officer at USTR whose sole mission will be to enforce trade agreements.

We must also recognize that our trade deficit also has causes closer to home. Our negative savings rate contributes significantly to our unsustainable trade deficit. Closing the gap requires us to boost private and public savings. The time is now to encourage companies to automatically enroll their employees in savings plans. The time is now to make the government once again pay as it goes.

I have proposed legislation to do this. And I ask for your support in helping to get this legislation passed in the next Congress.

Our second domestic priority must be to bolster Trade Adjustment Assistance. We cannot ask our workers to embrace trade if we do nothing to help them cope with the risk and the reality of the dislocations that trade can cause.

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Trade Adjustment Assistance is a compact between America and its workers. It is a promise that America will provide wage and health benefits, while its trade-displaced workers retool, retrain, and find a better job.

TAA expires next year. Before then, we need to think long and hard about how to make the program better reflect today's economy. A renewed TAA must cover service workers. It must cover all aspects of trade displacement, not just job losses from FTA partners. And we should seriously examine whether what we really need is a "GAA" — Globalization Adjustment Assistance — to cover workers displaced by all aspects of globalization, whether trade, technology, or other causes.

Third, an aggressive trade policy requires a parallel commitment to ensure that our workers and companies are the best and most competitive that they can be. We have fallen dangerously behind other countries in key areas of education and research.

Earlier this week, the World Economic Forum released a report. The United States slipped from first place to sixth place in its competitiveness rankings. The principal reason for this decline was our failure to address our own shortcomings.

We must reverse this trend. America must retain its innovative edge to meet the rapid pace of globalization. America's workers must have the skills they need to succeed. Our children and grandchildren deserve the same living standards tomorrow that we enjoy today.

That is why I have spent the past year rolling out an ambitious competitiveness agenda. So far, that includes five bills — each dedicated to a particular aspect of competitiveness.

To invest in tomorrow's skills, my education competitiveness bill bolsters education from universal pre-kindergarten to life-long learning for adults.

To capitalize on American ingenuity, my research competitiveness bill provides incentives to ignite private investment in innovation.

To fuel America's future, my energy competitiveness bill encourages today's alternative energies and funds the transformative research necessary to produce tomorrow's energy sources.

And to rebalance our economy, my trade and savings bills create trade opportunities while reining in our deficits.

This is only the beginning. In the next Congress, I will continue to work to ensure that we are again the number 1 most competitive economy, and stays there.

Fourth, we must get beyond the stale political debate over trade and labor issues and find common ground. Surely we can agree that by improving workers rights around the world, we project America's values and forestall a race to the bottom on wages and benefits.

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Improving workers rights is also good for us. When we help to improve the conditions for workers in the developing world, we help create a middle class with disposable income capable of purchasing the beef, wheat, insurance policies, software, and DVDs grown, created, and made in the USA. The more widely we can spread the benefits of globalization, the more that we can create new competitive opportunities for our exports.

Trade Promotion Authority expires next June. Many look to this date with anxiety. I do not. I view it as an important opportunity to put our trade policy back on solid footing.

Like the choice that President Kennedy faced in 1962, we stand again at a critical juncture in our international economic policy. Today's challenges — both foreign and domestic — demand urgent attention. They require a robust debate on how we should move forward. That debate should involve Democrats and Republicans, Congress and the administration, business and labor, our trading partners and opinion leaders.

For my part, I will approach this debate through the prism of competitiveness. Whatever law renews Trade Promotion Authority — and whenever it does — it will have to enhance the global competitiveness of America's innovative economy.

Forty-four years ago, President Kennedy asked America to “move ahead” on trade policy “in an uncharted sea.” Today, we must set out again in new waters.

Let us learn the lessons of earlier voyages and avoiding needless side-trips. Let us be more able captains and rally the support of all who are with us on this journey. And let us make competitiveness our Northern Star. And if we do, I have every confidence that we will once again reach the shores of a better land.

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